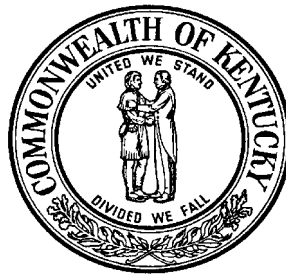


**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JOHNSON COUNTY SHERIFF

For The Year Ended
December 31, 2001

The Auditor of Public Accounts has completed the Johnson County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Revenue increased by \$107,336 from the prior year and disbursements increased by \$44,209.

Notes To The Financial Statement:

The fiscal court passed an order adopting fee pooling for the Sheriff. The Sheriff remitted the receipts collected monthly to the fiscal court, and the fiscal court paid the Sheriff's operating expenses and remitted fees due the state treasurer.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the County Sheriff securing the Sheriff's interest in the collateral.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	4
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable R. T. Daniel, Johnson County Judge/Executive

Honorable William D. (Bill) Witten, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Johnson County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Johnson County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable R. T. Daniel, Johnson County Judge/Executive

Honorable William D. (Bill) Witten, Johnson County Sheriff

Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
October 14, 2002

JOHNSON COUNTY
WILLIAM D. (BILL) WITTEN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants		\$	13,873
State Fees For Services:			
Finance and Administration Cabinet	\$	21,790	
Cabinet For Human Resources		6,510	
Kentucky Law Enforcement Foundation Program		<u>26,812</u>	55,112
Circuit Court Clerk:			
Sheriff Security Service	\$	6,829	
Fines and Fees Collected		<u>2,915</u>	9,744
Fiscal Court			110,765
County Clerk - Delinquent Taxes			6,094
Commission On Taxes Collected			229,448
Fees Collected For Services:			
Auto Inspections	\$	11,810	
Accident and Police Reports		1,551	
Serving Papers		19,730	
Carrying Concealed Deadly Weapon Permits		6,165	
Add On Fees		22,378	
Sheriff Fee on Taxes		<u>2,695</u>	64,329
Other:			
Executions	\$	30	
Miscellaneous		2,063	
Sale of Equipment		7,713	
Insurance Reimbursements		<u>7,856</u>	17,662
Interest Earned			<u>5,474</u>
Total Receipts		\$	512,501
Less: Statutory Maximum			<u>63,495</u>
Excess Fees Due County for 2001		\$	449,006
Payments to County Treasurer - Various Dates			<u>449,006</u>
Balance Due at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statement.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The Johnson County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and the 6.41 for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Sheriff securing the Sheriff's interest in the collateral.

Note 4. Excess Fees Due Fiscal Court From Former Sheriff Don McFaddin

The former Sheriff Don McFaddin owes the Johnson County Fiscal Court excess fees for calendar years 1995, 1996, and 1997 in the amount of \$3,119, \$2,681, and \$2,051 respectively, for a total of \$7,851. The Fiscal Court under KRS 64.820(1) is to collect any amount due the county from county officials. The legal action to collect is required by KRS 64.820(2) that directs the County Attorney to institute suit for the amount reported as due the county. On January 8, 2000, the Fiscal Court by motion, duly passed, instructed the Johnson County Attorney to initiate legal action to collect the excess fees from the former Sheriff, Don McFaddin. At the date of this report, legal action had not been initiated.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 5. Other Accounts

A. Asset Forfeiture

The Sheriff received \$58,006 from the United States Marshall Service for its share of federally seized property related to illegal drug operations and earned \$250 in interest from the investment of these funds for a total of \$58,256. These funds were used to purchase equipment and supplies for the Sheriff's office. \$57,172 was expended during the year, leaving a balance of \$1,084 as of December 31, 2001.

B. Undercover Operations

The Sheriff received \$1,099 from the Circuit Court for the seizure of property related to illegal drug operations and earned \$14 in interest from the investment of these funds for a total of \$1,113. These funds will be used to conduct undercover drug operations. No funds were expended during the 2001 calendar year. As of December 31, 2001, the ending balance was \$1,113.

C. Rewards

The Sheriff received \$2,000 from calendar sales and donations and earned \$29 from the investment of these funds for a total of \$2,029. These funds will be used to offer rewards for information leading to the arrest of those that commit criminal acts. \$8 was expended during the year, leaving a balance of \$2,021.

COMMENT AND RECOMMENDATION

JOHNSON COUNTY
WILLIAM D. (BILL) WITTEN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- All disbursement checks prepared by employee are examined by the Sheriff for proper documentation when he signs checks
- Official mails disbursements
- The Sheriff or someone independent of the Sheriff's office reviews bank reconciliation

County Sheriff's Response:

Sheriff made no response.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Johnson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Johnson County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated October 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 14, 2002

